No. 3026

United States Circuit Court of Appeals

For the Ninth Circuit

RELIANCE CONSTRUCTION COMPANY, a corporation; CITY OF HOOD RIVER, a municipal corporation, and NATIONAL SURETY COMPANY, a corporation,

Appellants,

vs.

HASSAM PAVING COMPANY, a corporation, and OREGON HASSAM PAVING COMPANY, a corporation,

Appellees.

BRIEF OF APPELLANT RELIANCE CONSTRUCTION COMPANY

On Appeal from the District Court of the United States for the District of Oregon.

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Counsel for Appellees

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BRIEF OF APPELLANT RELIANCE CONSTRUCTION COMPANY

On Appeal from the District Court of the United States for the District of Oregon.

STATEMENT OF THE CASE.

This is an appeal by the appellant Reliance Construction Company from decree of lower court granting motion of appellees to confirm report of Master in Chancery and overruling exceptions to

said report by appellant Reliance Construction Company upon an accounting for infringing the patent for laying Hassam pavement in City of Hood River and decreeing that the appellees have and recover of and from the appellants and each of them the sum of forty-five hundred twenty-seven and 73/100 dollars ($4527.73) damages as aforesaid, together with their costs and disbursements to be taxed.

See Transcript, pages 126-127.

The validity of appellees' patents were adjudicated, the infringement by appellant Reliance Construction Company was adjudicated, the order for appellant to account to appellees was made, and the reference to master was made; a perpetual injunction was granted, in the decree of April 27, 1914, rendered in this suit, and these matters are all *res judicata* and were not and could not be questioned on this accounting.

See Transcript, pages 68, 69, 70, 71, 72.

There was an order entered in this suit that the appeal from decree of April 27, 1914, entered in this suit was withdrawn and that Master in Chancery proceed with the reference in accordance with the terms of the said decree made in this suit on March 27, 1916.

See Transcript, pages 95, 96, 97.

Thus the only issue open was the proper accounting.

Hall & Stearns, attorneys for defendants, then withdrew as attorneys for defendants.

There was a master's summons issued in this suit and served upon appellant Reliance Construction Company and appellant National Surety Company.

See Transcript, pages 97, 98, 99, 100, 101, 102, 103, 104.

Appellant Reliance Construction Company appeared by Ralph R. Duniway, its solicitor, before the master on May 3, 1916, and on May 9, 1916, it filed an account of its profits on said infringement in sum of $1900.34.

See Transcript, pages 164, 165, 166, 167, 168, 169, 170, 171, 172.

Appellant National Surety Company appeared by Mr. Harrison Allen, its solicitor, before the master on May 3, 1916; the hearing was postponed to May 9, 1916, and said appellant National Surety Company did not appear further in any way until it appealed from the decree of the lower court against it for $4527.73 damages.

See Transcript, page 166.

Appellant City of Hood River was not mentioned in, or served with master's summons, and did not appear in any way in the proceedings for an accounting until it appealed from the decree of the lower court against it for $4527.73 damages.

The hearing was had before the master on the

account filed by the appellant Reliance Construction Company of its profits on the infringement and the objections filed thereto by the appellees, and on the plaintiffs' statement of damages and the objections thereto by appellees, and the evidence was taken before the master for the purpose of computing what recovery should be allowed. The profits of defendant Reliance Construction Company on the work done by it, which had been adjudged by the court to be an infringement of the patents owned and controlled by the plaintiffs, were ascertained and said hearing was also directed to the ascertainment of the damages sustained by plaintiffs.

The master on August 18, 1916, filed findings of fact and his reasons for the findings of fact in which the master stated that the hearing was for the purpose of computing the profits of the defendant Reliance Construction Company in the work done by it which has been adjudged by the court to be an infringement of the patent owned and controlled by plaintiffs, said hearing being also directed to the ascertainment of the damages sustained by plaintiffs.

The master found that the profits of appellant Reliance Construction Company in performing the work were $2362.40.

The master found that the damages of plaintiffs from the infringement referred to in Finding I were and are the sum of $4527.73.

The master made no finding against appellant National Surety Company or appellant City of Hood River.

See Transcript, pages 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117.

Appellant Reliance Construction Company filed two exceptions to the master's report, as follows:

First Exception.

The defendant Reliance Construction Company excepts to that part of the master's report, paragraph IV, which sur-charges the account of defendant's profits $300 as excessive overhead or general expense, and said defendant respectfully moves the court to hold that the entire credit under this head claimed by said defendant of $604.82 is the correct amount of overhead expense to be charged in this accounting, and that defendant's total profits on this contract was $2,062.40 and no more.

Second Exception.

Defendant Reliance Construction Company excepts to that part of the master's report, paragraphs VII and VIII whereby the master finds that twenty-five cents a square yard would be a reasonable royalty for the use of the Hassam pavement, and that plaintiff recover damages and that the damages of plaintiff on the infringement, referred to in Finding I of the master's report were and are the sum of $4,527.73.

Defendant respectfully moves the court to hold

that plaintiff in this case is only entitled to recover the profits which defendant Reliance Construction Company made upon the contract which infringed the patents of plaintiff, and that such profits of defendant are $2,062.40 and no more, and that in this case plaintiff has not suffered any damages by the infringement and is not entitled to recover any royalty for the infringement other than beyond the profits made under the contract by defendant, which are $2,062.40 and no more.

See Transcript, pages 118-119.

Complainants filed a motion for confirmation of master's report and entry of final decree and allowance of treble the amount of damages reported by master, as follows:

Now comes the complainants and move for confirmation of the report of the master and entry of final decree in the above entitled suit, and that the complainants be allowed treble the amount of damages ascertained and reported by the Master in Chancery in his report.

As a basis for the application for allowance of treble damages, complainants rely upon the records and files of this suit and the report of the Master in Chancery, particularly upon the fact that the defendants took the municipal contract for laying pavement in the City of Hood River with Hassam pavement, infringing the patents referred to in the complaint and decree, after having been repeatedly

warned and notified by the complainants that they would be held for infringement and after having been offered a license by the complainants and which defendants neglected to accept.

See Transcript, pages 119-120.

The exceptions of appellant Reliance Construction Company and the motion to confirm the report of master and for treble damages, were heard, and were disposed of by the lower court on February 3, 1917, decreeing that the complainants have and recover of and from the said defendants and each of them the sum of forty-five hundred twenty-seven and 73/100 dollars ($4,527.73) damages as aforesaid, together with their costs and disbursements to be taxed.

See Transcript, pages 121, 122, 123, 124, 125, 126, 127.

Appellant Reliance Construction Company filed petition for rehearing on February 3, 1917.

See Transcript, pages 128, 129, 130, 131, 132, 133, 134, 135, 136.

Order was entered denying petition for rehearing and an opinion given denying rehearing.

See Transcript, pages 136, 137, 138, 139, 140, 141, 142.

Each of the three defendants have perfected separate appeals to this court.

See Transcript, pages 143 to 163.

SPECIFICATION IN WHAT THE DECREE IS ALLEGED TO BE ERRONEOUS BY APPELLANT RELIANCE CONSTRUCTION COMPANY.

First: Because said decree overrules the first exception of Reliance Construction Company to that part of the master's report, paragraph IV which surcharges the account of defendant, Reliance Construction Company, profits as excessive overhead or general expense, instead of holding as requested by said Reliance Construction Company, that the entire credit under this head claimed by said defendant of $604.82 is the correct amount of overhead expense to be charged in this accounting, and that said Reliance Construction Company's total profit on this contract was $2,062.40 and no more.

Second: Because said decree overrules the second exception of Reliance Construction Company to that part of the master's report, paragraphs VII and VIII whereby the master finds that 25 cents a square yard would be a reasonable royalty for the use of the Hassam pavement, and that plaintiffs recover damages and that the damages of plaintiffs on the infringement referred to in Finding I of the master's report were and are the sum of $4,527.73, instead of finding no damages to complainants.

Third: Because said decree confirms said master's report and refuses to decree as moved by the

Reliance Construction Company that plaintiffs in this case are only entitled to recover the profits which defendant Reliance Construction Company made upon the contract which infringed the patents of plaintiffs, and that such profits of defendant Reliance Construction Company are $2,062.40 and no more, and that in this case plaintiffs have not suffered any damages by the infringement and are not entitled to recover any royalty for the infringement other or beyond the profits made under the contract by the defendant Reliance Construction Company, which are $2,062.40 and no more.

Fourth: Because the said decree confirms the findings of fact and report of the Master in Chancery in finding that the damages of plaintiffs for the infringement by the defendant Reliance Construction Company referred to in Finding I, were and are the sum of $4,527.73, instead of finding no damages to complainants.

Fifth: Because said decree confirms the findings of fact and report of the Master in Chancery in finding that the profits of the Reliance Construction Company in the infringements aforesaid are $2,362.40, instead of $2,062.40 and no more.

Sixth: Because said decree orders and decrees that complainants have and recover of and from the Reliance Construction Company the sum of $4,527.73 damages, instead of $2,062.40 profits, together with their costs and disbursements to be taxed.

Seventh: Because said decree orders and decrees that complainants have and recover of and from said defendants and each of them, the sum of $4,527.73 damages as aforesaid, together with their costs and disbursements to be taxed, thereby entering a decree against defendant City of Hood River, a municipal corporation, for $4,527.73 damages together with plaintiffs' costs and disbursements to be taxed, when said City of Hood River had not been brought before the Master in Chancery to account in any way, nor was it required to file any statement of what it had done, nor was there any evidence of any kind introduced against the City of Hood River, nor any claim made against the City of Hood River before the Master in Chancery that it had damaged the complainants or made any profits, and the Master in Chancery did not make any findings of fact or conclusions of law, or report against the City of Hood River in any amount, nor was the City of Hood River summoned before the District Court in any way, nor did it appear before said District Court in any way, nor was it given any hearing in any way before the decree was rendered against it, and said decree casts the City of Hood River in judgment for $4,527.73 damages, together with costs and disbursements, without it being summoned into court in any way or being given a hearing in any way, and said decree is an attempt to deprive said City of Hood River of its property without due process of law

in violation of the Constitution of the United States of America.

Eighth: Because said decree orders and decrees that complainants have and recover of and from said defendants and each of them, the sum of $4,527.73 damages as aforesaid, together with their costs and disbursements to be taxed, thereby entering a decree against defendant National Surety Company, a corporation, for $4,527.73 damages together with plaintiffs' costs and disbursements to be taxed, when said National Surety Company was not required to file any statement of what it had done, nor was there any evidence of any kind introduced against the National Surety Company, nor any claims made against the National Surety Company before the Master in Chancery that it had damaged the complainants or made any profits, and the Master in Chancery did not make any findings of fact or conclusions of law or report against the National Surety Company in any amount, and there is neither allegation nor evidence to support said decree against the National Surety Company in any amount, nor was the National Surety Company given any hearing before the District Court before it was cast in judgment.

Appellant Reliance Construction Company, upon this appeal, respectfully contends for a decree reversing the decree of the lower court and directing that a decree be entered against the appellant Reliance Construction Company only for the profits

made upon the infringement, which were $2,062.40 and no more, together with the costs incurred by appellees up to the entry of decree in lower court, which costs have been taxed at $282.30, and that appellant Reliance Construction Company be awarded a decree in the Court of Appeals for its costs and disbursements on the appeal.

POINTS AND AUTHORITIES.

I.

Upon this accounting no one can question what was determined in the injunction suit by the decree, to-wit:

That the appellees have valid patents and that appellants had infringed upon those valid patents in laying this pavement in Hood River, and should account for the pavements made, used or sold by said defendants and also the gains, profits and advantages which the said defendants have received or which have arisen or accrued to them or either of them, since the 1st day of May, 1913, from infringing the said exclusive rights of the said complainants by the manufacture, use or sale of the said inventions and infringements in the said letters patent, and the damages which the complainants have suffered by said infringements.

See Transcript, pages 68, 69, 70, 71.

Kirk v. Du Boris, 46 Fed. Rep. 486.

Vrooman v. Pehhollow, 220 Fed. Rep. 894.

II.

Upon this appeal from the decree of the lower court upon the report of the Master in Chancery the case is not tried *de novo* upon the whole record.

Tilghman v. Proctor, 125 U. S. 136-161, s. c. 31 Law. Ed. 664 on 668.

Louisville & N. R. R. Co. v. United States, 238 U. S. 1, 21, s. c. 59 Law. Ed. 1177 on 1180.

III.

The appeal is to ascertain whether the decree entered upon the report of the master is erroneous in the part excepted to by appellants.

The burden is upon appellants to assign error in the decree which is reversible error.

Judicial Code, Sec. 128.

Equity Rules, 75, 76, 77.

IV.

The appellees and lower court required appellants to get up record on appeal in distinct and emphatic violation of the law and to include in transcript at large unnecessary expense a great mass of matter which is immaterial and irrelevant to any question that can arise on this appeal.

Equity Rules, 75, 76.

Simkins' A Federal Suit in Equity (3rd Ed.), pages 706, 707, 708, 709, 710.

Re General Equity Rules, 222 Fed. Rep. 884.

L. & N. R. R. Co. v. United States, 238 U. S. 1, 10-11.

United States v. Motion Picture Patents Co., 230 Fed. 541.

See Praecipe filed by appellants in Transcript, pages 405, 407.

See Praecipe filed by appellees in Transcript, pages 408, 410.

That the statement of the evidence and proceedings is an amended statement filed in this form because of objections of appellees to first statement and the ruling of the lower court is shown by the certificate to the statement, page 404 of Transcript, as follows:

"The above statement of facts has been prepared by appellants in accordance with the ruling of the court made upon objections of respondents to the first statement of facts prepared by appellants, and is approved after notice and hearing of respondents this 28th day of June, 1917.

R. S. Bean, Judge."

Appellees and lower court required appellants to print the following matter in violation of the rules and to the confusion of the record in this appeal.

1. Bill of complaint, answer.

Transcript, pages 7 to 66.

2. Stipulations before hearing in this accounting.

Transcript, pages 66, 67.

3. Petition for appeal, assignment of errors, order allowing appeal, bond on appeal, stipulations, orders, all before this proceeding for accounting and immaterial to this appeal.

Transcript, pages 73 to 92 inclusive.

4. Included in statement of evidence and proceedings the following about which there is no dispute and is immaterial to any question on appeal:

a. General license offer.

Transcript, pages 173 to 184.

b. Complainants' debit and credit statements.

Transcript, pages 185 to 193.

c. Ordinance No. 432, affidavit of publication, notice of street improvement, contract Reliance Construction Company with City of Hood River.

Transcript, pages 195 to 210.

d. Deposition of E. O. Hall.

Transcript, pages 223 to 235.

e. There are pages and pages of testimony in Transcript which do not apply in any way to the questions on appeal.

Transcript, pages 235-393.

The appellants picked out and stated the evidence applicable to this appeal in narrative form, but upon objection of appellees lower court required the evidence to be set forth.

V.

The first assignment of error that the master and lower court committed error in surcharging the profits of appellant Reliance Construction Company $300 on account of overhead expense should be upheld on this appeal, under the evidence in this case on that subject and the law.

Riverside Heights Orange Growers' Assn. v. Stebler, 240 Fed. Rep. 703, 712-713.

Elizabeth v. Pavement Company, 97 U. S. 319, affirming 1 Fed. Cases No. 309.

See testimony R. J. Straicher, pages 331-366 of Transcript.

See testimony Jack Elden, pages 366 to 376 of Transcript.

See testimony F. H. Peterson, pages 377-391 of Transcript.

VI.

The second assignment of error should be upheld in this case because there is no evidence in this case authorizing the master to find that 25 cents a square yard would be a reasonable royalty for the use of Hassam pavement in this case or that any more than 15 cents a square yard could be charged as a reasonable royalty for the use of Hassam pavement in this case, if reasonable royalty is the proper measure of damages to be recovered in this case.

See reasons of master for his findings, page 115 of Transcript.

There is no testimony showing that Oregon Hassam Company has been under any expense to introduce Hassam pavement in State of Oregon.

See testimony of Mr. John H. Crane, pages 248-249, shows that 15 cents is the royalty paid for laying Hassam pavement.

VII.

The second assignment of error should be upheld in this case because there is no evidence in this case authorizing the master or the lower court to find that the damages of plaintiffs on the infringement referred to in Finding I of the master's report were and are the sum of $4,527.73, instead of finding no damages to complainants, and that in this equity case the recovery should be the profits made on the infringement by the appellant Reliance Construction Company of $2,062.40.

VIII.

This is a suit in equity for an injunction to establish the validity of appellees' patents, enjoin further infringements by appellants, and to obtain an accounting.

In an equity suit, patentee recovers infringer's profits, unless complainants can clearly prove a greater royalty should be paid or that complainant suffered greater damages than the amount of infringer's profits.

Tilghman v. Proctor, 125 U. S. 136-161, s. c. 31 Law. Ed. 664, 666, 667, 668.

Coupe v. Royer, 155 U. S. 565 on 582.

Cassidy v. Hunt, 75 Fed. R. 1012.

Riverside Heights Orange Growers' Assn. v. Stebler, 240 Fed. Rep. 707 on 714, 715.

Kirk v. Du Bois, 46 Fed. Rep. 486, 487.

Packet Company v. Sickles, 19 Wall. (U. S.) 611 on 617.

Root v. Railway Co., 105 U. S. 189 on 194, 195, 201, 202, 203.

Birdsall v. Coolidge, 93 U. S. 64.

IX.

The equity rule as to profits comes nearer than any other to doing complete justice between the parties.

Tilghman v. Proctor, 125 U. S. 136-161, s. c. 31 Law. Ed. 664 on 667.

X.

Courts of equity are reluctant to charge defendants in patent infringement cases more than their profits on the infringements, where the profits are a substantial sum, and very clear proof is required before the addition will be made.

S. S. Carter v. Crossman, Fed. Cases No. 13320.

Buerk v. Imhaeuser, Fed. Cases No. 2107.

XI.

The master committed error in reporting that appellees should recover 25 cents as a reasonable

royalty, because there was not the necessary proof of general royalty to enable any royalty to be recovered in this case.

Rude v. Westcott, 130 U. S. 152, 165.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648.

Cases cited in note to *Rose v. Hirsh,* 51 L. R. A. 804, 805.

The burden of proof was upon the appellees to allege and prove what would be a reasonable royalty.

Cases cited in note to *Rose v. Hirsh,* 51 L. R. A. 801 on 804-805.

Reed v. Westcott, 130 U. S. 152-165.

McSherry Mfg. Co. v. Dowagiac Mfg. Co., 160 Fed. Rep. 948, 965.

U. S. Furniture Co. v. Lanhoff, 216 Fed. Rep. 610.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648.

W. E. & M. Co. v. Wagner E. & M. Co., 41 L. R. A., N. S. 653 and note.

The master found that "the evidence fails to disclose that there is an established royalty for the use of Hassam pavement generally recognized in the paving business and generally paid by those engaged therein."

See Transcript, page 110.

No one excepted to this finding.

Appellees moved to confirm the report of the master. Thus it ought to be established on this appeal that the appellees were not entitled to recover royalty.

XII.

If any royalty could be recovered in this case, it could not be more than 15 cents per square yard on 18,109.59 square yards, or $2,716.43 instead of $4,527.73, under the evidence and the law.

See Report of Master, page 115.

See testimony of Mr. John H. Crane, pages 248-249 of Transcript.

This is so for the following reasons:

Appellees proved that 15 cents a yard was the highest royalty charged and paid for the use of Hassam patent. The master erroneously allowed 10 cents a yard more for advertising and promotion work on part of Oregon Hassam Company upon the ground that "the testimony shows that it has been under some expense and has been at some effort to introduce Hassam pavement in the State of Oregon and that it was actively competing for business therein at the time when the contract in question was awarded to the Reliance Construction Company. These circumstances would seem to entitle it to an additional allowance, and 10 cents a yard is a reasonable sum to be paid to it for its equity in the patent."

See reasons of master, page 115 of the Transcript.

There is no testimony that Oregon Hassam Paving Company or any one has been to any expense to introduce Hassam pavement in the State of Oregon. There is no evidence that this additional 10 cents a yard was reasonable price for the "some effort to introduce Hassam pavement in the State of Oregon and that it was actively competing for business therein at the time when the contract in question was awarded to the Reliance Construction Company."

The law does not authorize the allowance of 10 cents a yard or any sum in addition to reasonable royalty or as a part of reasonable royalty for use of patent to pay for the "some effort to introduce Hassam pavement in the State of Oregon and that it was actively competing for business therein at the time when the contract in question was awarded to the Reliance Construction Company."

XIII.

The master correctly held that "no royalty can be regarded as reasonable which would preclude any profit to the party paying it."

See Transcript, page 114.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648, 649.

The price paid at Hood River was $1.35 per square yard for Hassam pavement.

It costs more than $1.20 per square yard to lay Hassam pavement.

Therefore to charge 25 cents per square yard as a royalty for laying Hassam pavement when the price received for the pavement is $1.35 per square yard and it costs more than $1.20 per square yard to lay Hassam pavement is to bring a great loss upon the party laying the pavement and compelled to pay the royalty of 25 cents and violates the rule as to what is a reasonable royalty for laying Hassam pavement.

In ascertaining what is a reasonable royalty for appellants to pay the court should consider the price for which appellants had to sell the pavement.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648.

Hunt Bros. F. P. Co. v. Cassiday, 64 Fed. Rep. 585 on 587.

Block v. Thorne, 111 U. S. 122.

Burdett v. Denig, 4 Fed. Cases No. 2142.

Piper v. Brown, Fed. Cases No. 11181.

New York v. Ransom, 23 How. 487-491, s. c. 16 Law. Ed. 515.

XIV.

The injury to appellees was not in appellants laying the Hassam pavement, but in appellants laying Hassam pavement without compensating appellees for the use of the Hassam patents, as it is to the interest of appellees that as much Hassam pavement be laid as possible and that as many people lay Hassam pavement as possible, only pro-

vided appellees are paid for the use of the Hassam patents.

Sanders v. Logan, Fed. Cases No. 12295.

Emig v. B. & O. R. Co., 6 Fed. Rep. 284 on 288, 289.

New York v. Ransom, 23 How. (U. S.) 487-491, s. c. 16 Law. Ed. 515.

XV.

The burden of proof of proving damages suffered by appellees by the infringement is upon the appellees and appellees can only recover nominal damages for an infringement of their patent in absence of proof of actual damage.

Cornely v. Mackwale, 131 U. S. 159, s. c. 33 Law. Ed. 117.

Rude v. Westcott, 130 U. S. 153, 165.

McSherry Mfg. Co. v. Dowagiac Mfg. Co., 160 Fed. Rep. 948, 965.

U. S. Furniture Co. v. Lanhoff, 216 Fed. Rep. 610.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648.

W. E. & M. Co. v. Wagner E. & M. Co., 41 L. R. A., N. S. 653 and note.

Dobson v Hartford Carpet Co., 114 U. S. 439 on 444, s. c. 29 Law. Ed. 177 on 178, 179.

XVI.

There was no competent testimony that appellees were damaged at all by the infringement.

The master found that "the evidence fails to show that in the absence of an infringement by the defendant Reliance Construction Company, plaintiffs or their licensee would have secured the work."

See Transcript, page 110.

No one excepted to this finding.

Appellees moved to confirm the report of the master. Thus it ought to be established on this appeal that the appellees were not damaged by loss of the contract or in any other way.

There was no evidence to support the finding of fact by the master, as follows:

"That the damages of plaintiffs for the infringement referred to in Finding I were and are the sum of $4,527.73."

It is found in Finding I, and is established by the evidence, that the defendant Reliance Construction Company took this contract for the sum of $1.35 per yard, and that it cost the Reliance Construction Company, and would have cost any one else, more than $1.20 per yard to lay this Hassam pavement in Hood River.

The undisputed testimony is that Hood River would not have laid Hassam pavement unless the price had been a very great deal lower than the lowest price for which the Hassam Paving Com-

pany or any of its licensees, would lay Hassam pavement, and that the City of Hood River would have awarded its work for concrete pavement to defendant Reliance Construction Company at $1.30 per yard if the Reliance Construction Company had not bid $1.35 per yard for Hassam pavement under the mistaken belief that Hassam pavement was an unpatented pavement.

See testimony of witnesses Blanchard, Robertson, Stranahan, Tafft, Staten.

Transcript, pages 314 to 329.

Therefore it follows that there is absolutely no evidence, absolutely no legal reason stated or found by the master, nor stated by the court why a decree should be rendered that damages of plaintiffs for the infringement referred to in finding one were and are the sum of $4,527.73, or any other or greater sum than the profits which were made by the defendant Reliance Construction Company, or which could have been made by any competent person laying this Hassam pavement in Hood River, which the undisputed evidence shows do not exceed, and could not exceed the sum of $2,062.40, the profits made by the Reliance Construction Company and which profits the Reliance Construction Company concedes the decree should be against it in that amount.

XVII.

The lower court committed error in rendering a decree against the City of Hood River.

City of Hood River was not summoned before the master.

It did not appear before the master.

Mr. Crane, manager of appellees, testified before the master as follows:

"Q. You are not proceeding for damages against the City of Hood River?

A. No, not yet."

See Transcript, page 274.

See further Transcript, pages 259, 321, 322.

There was no accounting, no hearing, no evidence, and no finding by the master against the City of Hood River.

There was this express disclaimer of any proceeding for damages against the City of Hood River.

The appellees moved to confirm report of master, not to change report of master.

If appellees wish to proceed against City of Hood River, appellees should be compelled to sue City of Hood River at law for whatever damages City of Hood River has caused appellees, if any.

> *Root v. L. S. & M. S. R. Co.*, 105 U. S. 189 on 203, referring to *Elizabeth v. Pavement Co.*, 97 U. S. 126.

XVIII.

The decree against the City of Hood River for $4,527.73 damages and costs, was granted without complying with the law of the land as to notice

and opportunity to defend and cast said City of Hood River in judgment without due process of law.

Hollingsworth v. Barbour, 29 U. S. (4 Peters) 466, 476, s. c. 7 Law. Ed. 922, 926 and note.

Scott v. McNeal, 154 U. S. 34-51, s. c. 38 Law. Ed. 896, 897, 901, 902, 903.

Windsor v. McVeigh, 93 U. S. 274, 277, s. c. 23 Law. Ed. 914 on 916, 917, 918.

Pennoyer v. Neff, 95 U. S. 714, 733, s. c. 24 Law. Ed. 565, 572.

New Orleans Waterworks Co. v. New Orleans, 164 U. S. 480, s. c. 41 Law. Ed. 518 on 523.

Hovey v. Elliott, 167 U. S. 409, 447, s. c. 42 Law. Ed. 215.

XIX.

The lower court committed error in rendering a decree against the National Surety Company.

National Surety Company was served with master's summons and appeared before the master once by Harrison Allen, its solicitor.

There was no accounting, no hearing, no evidence and no finding by the master against the National Surety Company.

ARGUMENT.

Appellants respectfully ask the court to pass upon the question of practice in the way this record on appeal is prepared and again prescribe the correct practice for making record on appeal in equity case from decree confirming report of Master in Chancery.

The appellants have been put to an undue amount of expense by the way this record is made up and printed.

The questions on appeal are obscured by the way this record on appeal is made up.

The labor of the Court of Appeals and of the solicitors are unnecessarily increased to try a case on appeal where the record is made up in this improper and expensive way.

Also the rules of the court are violated when a record on appeal is made up in this way.

Appellants refer to and adopt as part of this argument the Points and Authorities I, II, III and IV set forth *supra* in this brief.

Argument in Support of First Assignment of Error.

In ascertaining appellant, Reliance Construction Company's profits, the overhead expense should be figured in the expense.

Elizabeth v. Pavement Company, 97 U. S. 319 affirming 1 Fed. Cases No. 309.

Riverside Heights Orange Growers' Ass'n. v. Stebler, 240 Fed. Rep. 703, 712, 713.

Also the master held, that reasonable overhead expense was chargeable in making up profits.

The master surcharged our profit account $300 on account of overhead expense.

The appellant Reliance Construction Company laid Hassam pavement cheaper than the appellees did.

This ought to demonstrate that appellant was not charging an exorbitant overhead expense.

The testimony shows that the appellant, Reliance Construction Company, is a little contracting company which does not have any business other than a few contracts for municipal work, and that it had several contracts of which the one at Hood River was among the smaller and that the overhead expense was kept as small as possible for all their business and that they apportioned the total overhead expense by dividing the total expense among the total contracts to see what percentage each contract ought to bear as its proportionate amount of the overhead expense.

The testimony of witnesses R. J. Straicher, pages 331-366, Jack Eldon, pages 366 to 376, F. H. Peterson, pages 377-391 of transcript, demonstrates that this method is a fair way of ascertaining the overhead or general expense in this kind of a case carried on by a corporation in this way.

Appellant respectfully submits that the testimony of appellee's expert accountant against this

method of apportioning overhead expense is unfair and inequitable.

Appellant respectfully submits that the master did not follow the testimony, did not follow any rule, in arriving at the amount of overhead expense that he would allow.

Appellant respectfully submits that the overhead expense ought to be allowed from the evidence and under some rule of law.

Argument in Support of Second, Third, Fourth, Fifth and Sixth Assignments of Error.

These assignments of error raise the question what is the proper measure of recovery in this case.

Appellant Reliance Construction Company concedes and urges that in this suit in equity the appellees are entitled to recover the profits which the Reliance Construction Company made by the infringement of appellee's patents, and that there was no royalty proven, and that there was no damages suffered by appellees.

The master found that appellees should recover against appellant Reliance Construction Company a reasonable royalty of 25 cents per square yard for use of Hassam pavement on 18,109.59 square yards or $4,527.73.

The master also found that the damages of plaintiffs from the infringement referred to in Finding I were and are the sum of $4,527.73.

Appellant Reliance Construction Company filed exceptions to said finding as to reasonable royalty and damages.

See Transcript, pages 118, 119.

Appellees moved the court to confirm report of master and to treble the damages.

See Transcript, page 120.

The court overruled the exception of appellant Reliance Construction Company and awarded a decree against all the defendants for $4,527.73 damages.

The validity of the patent had been adjudicated.

The infringement had been adjudicated.

The only question to be considered was the amount of appellees' recovery from the appellant Reliance Construction Company.

Appellant Reliance Construction Company concedes and always has conceded that all it made on the contract appellees are entitled to recover. Appellees were not satisfied to take all the profits that appellant Reliance Construction Company made on the contract, but were trying to get enormous damages which they did not suffer, and to have the court treble said damages.

The most important question to be decided in this case is what should the appellees be allowed to recover for the infringement on its patent by this appellant?

The master found that this appellant bid upon

the contract and was awarded the contract before it was notified that it must pay a license fee as the plaintiffs claimed the Hassam pavement was patented.

Thus the appellant was under contract obligations with City of Hood River before it was notified of appellees' demands, and appellees' patents had never been adjudicated,—that is the validity of plaintiffs' patent had never been adjudicated before appellant's bid.

Appellant Reliance Construction Company was advised and believed the patent of appellees to be invalid and therefore appellant Reliance Construction Company went on and completed the contract with Hood River upon the assumption that it was laying an unpatented concrete pavement termed Hassam.

Appellees did not enjoin this laying of Hassam pavement.

Appellees contented themselves with warning the appellant Reliance Construction Company and speculating on what it would get out of a law suit for the laying of Hassam pavement, instead of stopping the laying of Hassam pavement by the appellant Reliance Construction Company by means of a preliminary injunction in this suit.

Appellees come into equity to recover an injunction and their damages.

Appellant Reliance Construction Company sub-

mits that the appellees are not coming into court of equity with clean hands; do not come into a court of equity the way they should; in a way which should cause a chancellor to give appellees any more than the profits which appellant Reliance Construction Company made.

The appellant has been trapped by a series of circumstances and action into laying Hassam pavement in Hood River upon the assumption that it was an unpatented article, for $1.35 per square yard, and it made a profit on the job of $2,062.40, without taking into consideration the expense of this litigation, and the taxpayers of Hood River are the ones that have gotten the benefit of the transaction.

Appellees induced the officers of Hood River to advertise for bids to lay Hassam pavement.

The patent is worthless to the appellees unless it can get municipalities to lay its pavement. Therefore it is no damage to appellees, but a benefit to appellees to have Hassam laid.

If Hassam is not laid, appellees' patent is worthless.

If Hassam is laid, it is a benefit to appellees.

If Hassam is laid and appellees are paid for the use of their patent, of course that is more benefit to appellees, but the claim of appellees that they were damaged by the laying of Hassam pavement is fallacious, and appellees suffer no damage by

the laying of Hassam pavement, but receive a benefit from the laying of Hassam pavement no matter where it is laid or who lays it.

Emigh v. B. & R. K. Co., 6 Fed. 288, 289.

New York v. Ransom, 23 How. (U. S.) 487-491, s. c. 16 Law. Ed. 515.

Sanders v. Logan, Federal Cases No. 12295.

Of course appellees having established that it has a patent for the laying of Hassam pavement, any one laying Hassam pavement without obtaining a license from appellees is an infringer and must pay appellees in a suit in equity the profits which the infringer makes by laying Hassam pavement.

Can appellees recover any more than the profits of the infringer for the laying of Hassam pavement for Hood River in this equity suit?

That is the question to be decided on this appeal.

This is a suit in equity for an injunction to establish the validity of appellees' patents, enjoin further infringements by appellant, and to obtain an accounting.

In an equity suit, patentee recovers infringer's profits, unless complainants can clearly prove a greater royalty should be paid or that complainant suffered greater damages than the amount of the infringer's profits.

Tilghman v. Proctor, 125 U. S. 136-161; s. c. 31 Law. Ed. 664, 666, 667, 668.

Coupe v. Royer, 155 U. S. 565 on 582.

Cassidy v. Hunt, 75 Fed. Rep. 1012.

Riverside Heights Orange Growers' Assn. v. Stebler, 240 Fed. Rep. 707 on 714, 715.

Kirk v. Du Bois, 46 Fed. Rep. 486-487.

Packet Company v. Sickles, 19 Wall. (U. S.) 611 on 617.

Root v. Railway Co., 105 U. S. 189 on 194, 195 201, 202, 203.

Birdsall v. Coolidge, 93 U. S. 64.

The equity rule as to profits comes nearer than any other to doing complete justice between the parties.

Tilghman v. Proctor, 125 U. S. 136-161; s. c. 31 Law Ed. 664 on 667.

Courts of equity are reluctant to charge defendants in patent infringement cases more than their profits on the infringement where the profits are a substantial sum, and very clear proof is required before the addition will be made.

S. S. Carter v. Crossman, Fed. Cases No. 13320.

Buerk v. Imhaeuser, Fed. Cases No. 2107.

Kirk v. Du Bois, 46 Fed. 486, 487 states:

"It is a familiar and well settled principle that an infringer is liable only for profits or savings actually realized by him from the use of the patented invention, and shown by clear and definite proof.

Dean v. Mann, 20 How. 198.

Philip v. Nick, 17 Wall. 460.

Garretson v. Clark, 111 U. S. 120.

Rude v. Westcott, 130 U. S. 152."

The difference between recovery for infringement at law and in equity is pointed out in

Coupe v. Royer, 155 U. S. 565 on 582:

"There is a difference between the measure of recovery in equity and that applicable in an action at law. In equity the complainant is entitled to recover such gains and profits as have been made by the infringer from the unlawful use of the invention, and since the act of July 8, 1870, in cases where the injury sustained by the infringement is plainly greater than the aggregate of what was made by the defendant, the complainant is entitled to recover the damages he has sustained in addition to the profits received. At law the plaintiff is entitled to recover, as damages, compensation for the pecuniary loss he has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts—the measure of recovery in such cases being not what the defendant has gained, but what plaintiff has lost."

In *Packet Company v. Sickles,* 19 Wall. (U. S.) 611 on 617 court says:

"The rule in suits in equity, of ascertaining by a reference to a master the profits which the defendant has made by the use of plaintiff's inven-

tion stands on a different principle. It is that of converting the infringer into a trustee for the patentee as regards the profits thus made; and the adjustment of these profits is subject to all equitable considerations which are necessary to do complete justice between the parties, many of which would be inappropriate in a trial by jury."

See *Root v. Railway Co.,* 105 U. S. 189 on 194-195, 201, 202, 203.

Said case cites an extract from *Livingston v. Woodworth,* 15 How. 546, to this effect:

"But before a tribunal which refuses to listen even to any save those whose acts and motives are perfectly fair and literal, they cannot be permitted to contravene the highest and most benignant principle of the being and constitution of that tribunal. There they will be allowed to claim that which, *ex aequo et bono* is theirs, and nothing beyond this."

On 201 said case cites *Birdsall v. Coolidge,* 93 U. S. 64, to the effect that "gains and profits are still the proper measure of damages in equity suits except in cases where the injury sustained by the infringement is plainly greater than the aggregate of what was made by the respondent," in which event the provision is, that the complainant "shall be entitled to recover, in addition to the profits to be accounted for by the respondent, the damages he has sustained thereby."

On page 202 said case holds:

"But as the account of profits, previously, was the *incident* of the suit, and not its *object,* so now the power to award *damages* and to multiply them is added as an *incident* to the right to an account."

Thus appellees should only recover appellant Reliance Construction Companys' profits on the infringement unless appellees proved clearly a greater established royalty or a greater damage to appellees.

Did appellees prove an established royalty greater than the profits of appellant Reliance Construction Company so Master in Chancery was right in awarding 25 cents a square yard as royalty?

Did appellants prove a reasonable royalty greater than the profits of appellant Reliance Construction Company so Master in Chancery was right in awarding 25 cents a square yard as reasonable royalty?

The master committed error in reporting that appellees should recover 25 cents as a reasonable royalty, because there was not the necessary proof of general royalty to enable any royalty to be recovered in this case.

Rude v. Westcott, 130 U. S. 152, 165.

Dowagiac Mfg. Co., v. Minn. Plow Co., 235 U. S. 641 on 648.

Cases cited in note to *Rose v. Hirsh,* 51 L. R. A. 804, 805.

The burden of proof was upon the appellees to allege and prove what would be a reasonable royalty.

Rude v. Westcott, 130 U. S. 152, 165.

McSherry Mfg. Co. v. Dowagiac Mfg. Co., 160 Fed. Rep. 948, 965.

U. S. Furniture Co. v. Lankoff, 216 Fed. Rep. 610.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648.

W. E. & M. Co. v. Wagner E. & N. Co., 41 L. R. A., N. S., 653 and note.

The master found that "the evidence fails to disclose that there is an established royalty for the use of Hassam pavement generally recognized in the paving business and generally paid by those engaged therein"

See Transcript, page 110.

No one excepted to this finding.

Appellees moved to confirm the report of the master.

Thus it ought to be established on this appeal that the appellees were not entitled to recover established royalty.

If any royalty could be recovered in this case, it could not be more than 15 cents per square yard or $2,716.43, instead of $4,527.73 under the evidence and the law.

See Report of Master, page 115.

See testimony of Mr. John Crane, pages 248-249 of Transcript.

This is so for the following reasons:

The appellees proved that 15 cents a yard was the highest royalty charged and paid for the use of Hassam patent.

The master erroneously allowed 10 cents a yard more for advertising and promotion work on part of Oregon Hassam Paving Company upon the ground that "the testimony shows that it has been under some expense and has been at some effort to introduce Hassam pavement in the State of Oregon and that it was actively competing for business therein at the time when the contract in question was awarded to the Reliance Construction Company. These circumstances would seem to entitle it to an additional allowance, and ten cents a yard is a reasonable sum to be paid to it for its equity in the patent."

See reasons of master, page 115 of the Transcript.

There is no testimony that Oregon Hassam Paving Company, or any one, has been to any expense to introduce Hassam pavement in the State of Oregon.

On the other hand the Oregon Hassam Paving Company proved that it had made a good profit on introducing Hassam pavement in State of Oregon.

There is no evidence that this additional 10 cents a yard was reasonable price for the "some effort to introduce Hassam pavement in the State of Oregon and that it was actively competing for business therein at the time when the contract in question was awarded to the Reliance Construction Company."

The Oregon Hassam Paving Company proved that it had made a good profit by its effort to introduce Hassam pavement in State of Oregon.

The law does not authorize the allowance of 10 cents a yard or any sum in addition to reasonable royalty, or as a part of reasonable royalty for use of patent to pay for the "some effort to introduce Hassam pavement in the State of Oregon, and that it was actively competing for business therein at the time when the contract in question was awarded to the Reliance Construction Company."

Neither text book nor decided case can be cited to uphold such a recovery as part of reasonable royalty.

It is absolutely foreign to every idea in regard to reasonable royalty for use of a patent.

How can appellee Oregon Hassam Paving Company recover royalty for its "equity in the patent?"

What does that mean?

The lower court did not confirm the report of

the master in this reasonable royalty reasoning of the master.

The lower court confirmed the report of the master on different reasoning and ground, the ground of damages, which subject appellants will discuss later in this argument.

The lower court did not approve the reasoning by which the master reached his decision on royalty.

See Transcript, page 137.

The master discussed reasonable royalty as distinguished from established royalty.

The master correctly held that "no royalty can be regarded as reasónable which would preclude any profit to the party paying it."

See Transcript, page 114.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648, 649.

The price paid at Hood River for Hassam pavement was $1.35 per square yard for Hassam pavement.

City of Hood River would not pay an exorbitant price for Hassam pavement.

It costs more than $1.20 per square yard to lay Hassam pavement.

Therefore, to charge 25 cents per square yard as a royalty for laying Hassam pavement when the price received for the pavement is $1.35 per square yard and it costs more than $1.20 per square yard

to lay Hassam pavement, is to bring a great loss upon the party laying the pavement and compelled to pay the royalty of 25 cents and violates the rule as to what is a reasonable royalty stated by the master.

In ascertaining what is a reasonable royalty for appellants to pay, the court should consider the price for which appellants had to sell the pavement.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648.

Hunt Bros. C. F. P. Co. v. Cassiday, 64 Fed. Rep. 585 on 587.

Black v. Thorne, 111 U. S. 122.

Burdell v. Denig, 4 Fed. Cases No. 2142.

Piper v. Brown, Fed. Cases No. 11181.

The evidence demonstrates that City of Hood River changed its proceedings and advertised for bids for concrete pavement, or Hassam pavement, so it would get bids which it was willing to accept.

Testimony of Mr. Crane, manager of appellees, pages 272-273 of Transcript.

Testimony of Mr. Robertson, pages 323-325 of Transcript.

See Records City Hood River, pages 217-218 of Transcript.

The evidence of the officials of City of Hood River demonstrates that City of Hood River would have laid a concrete pavement on the bid of appel-

lant Reliance Construction Company of $1.30 per square yard if appellant Reliance Construction Company had not put in a bid of $1.35 per square yard for Hassam pavement under the mistaken idea and advice that Hassam pavement was an unpatented concrete pavement.

See testimony of witnesses, pages 314-330 of Transcript.

Therefore the master had no right to figure reasonable royalty in this suit upon this idea, to-wit:

"On the other hand, the evidence of plaintiffs shows that a business well organized and economically conducted would pay a royalty of twenty-five cents per yard and still make a profit *on the price ordinarily paid for smooth-surface pavements in this part of the United States.*" (Italics ours.)

The evidence of plaintiff was upon the basis of $1.70 to $2.00 per square yard for pavement.

See Transcript, page 313.

If appellant Reliance Construction Company had gotten for this Hassam pavement at Hood River "the price ordinarily paid for smooth surface pavement in this part of the United States," i. e., from $1.70 to $2.00 per square yard, the Reliance Construction Company would have been well pleased with a decree of 25 cents per square yard either as royalty or damages.

Under such circumstances the decree would have

been only one-half or less of the profit that Reliance Construction Company would make on such prices for Hassam pavement.

But the fact is that Reliance Construction Company laid Hassam pavement at City of Hood River composed of rock, sand, cement and water, and a concrete pavement in fact under the name of Hassam for the price of concrete unpatented pavement, to-wit, $1.35 per square yard.

Under these facts, reasonable royalty cannot be computed at 25 cents a square yard for use of Hassam on a price of $1.70 to $2.00 per square yard.

Under these facts there is no basis for figuring a reasonable royalty on any other price than $1.35 per square yard for Hassam pavement.

The master in allowing 25c per square yard as a reasonable royalty figured upon the basis of $1.70 per square yard as the lowest price to estimate a reasonable royalty upon. The master holds that any royalty that prevents a profit is not reasonable.

The price of Hassam varies from $1.20 to $2.00 per square yard in Oregon. The price paid appellant Reliance Construction Company at Hood River was $1.35.

Hassam cost, to lay in Hood River, more than $1.20 per square yard.

Therefore to charge 25c per square yard as a reasonable royalty, and the price received from the

laying of the pavement was $1.35, and it cost more than $1.20 per square yard to lay it, is to bring a great loss upon the party charged a reasonable royalty. That is not a reasonable royalty as the master himself has held and which holding is not excepted to by appellees.

There is no evidence in this record upon which to base this finding that 25c would be a reasonable royalty.

All the testimony shows without dispute that it would cost more than $1.20 per square yard to lay the pavement without paying any royalty, and that the price received was $1.35 per square yard.

Therefore there is no evidence upon which to base the claim that 25c is a reasonable royalty to pay for laying Hassam pavement when the price received is only $1.35 per square yard.

If appellees were not willing to be content to take the profits which the appellant Reliance Construction Company made upon the contract, or is not content to take a reasonable royalty based upon the price of $1.35 per square yard, then the appellees if they were to act equitably and justly, should have enjoined the laying of the pavement at Hood River at $1.35 per square yard.

Appellees inequitably laid and set a trap for the appellant Reliance Construction Company, and now in equity are seeking to recover enormous damages which they did not sustain and unreasonable

license fee, and then ask the court in equity to treble those inequitable damages or high unjust license fee.

Surely the appellees in this case are violating all the equitable maxims of he who seeks equity must do equity, and he who comes into equity must come with clean hands.

Courts are reluctant to charge defendants in patent infringement cases more than its profits on the infringement.

S. S. Caster Co. v. Crossman, Fed. Case No. 13320.

Buerk v. Imhaeuser, Fed. Case No. 2107.

Appellees and the master and lower court overlooked that the Hassam patent is of no value unless municipalities can be induced to lay the Hassam pavement.

The master and lower court overlooked the inequitable conduct of the appellees in inducing the City of Hood River to advertise for Hassam pavement in competition with ordinary concrete pavement, and to let the Hassam pavement be laid for $1.35 per square yard, file this suit to adjudicate the validity of its patent, and then seek to recover as compensation more than the infringing appellant Reliance Construction Company made upon the contract.

The appellees are seeking to fine the appellant enormous sums of money for backing its judgment

and relying upon advice of counsel as to the invalidity of its unadjudicated patent.

Appellees are seeking to fine appellant an enormous amount of money for laying Hassam pavement for the benefit of the taxpayers of Hood River at $1.35 per square yard. The parties who have benefited by this transaction are the tax payers of Hood River who obtained Hassam pavement at a reasonable price, and the appellees who are able to recover the profits made on the job without having any of the labor and risk of contracting for the pavement.

The unfortunate victim of this series of transactions is the appellant, Reliance Construction Company.

The injury to appellees was not in appellants laying the Hassam pavement, but in appellants laying Hassam pavement without compensating appellees for the use of the Hassam patents, as it is to the interest of appellees that as much Hassam pavement be laid as possible, and that as many people lay Hassam pavement as possible, only provided appellees are paid for the use of the Hassam patents.

Sanders v. Logan, Fed. Case No. 12295.

Emig v. B. & O. R. Co., 6 Fed. Rep. 284 on 288, 289.

New York v. Ransom, 23 How. (U. S.) 487-491, s. c. 16 Law. Ed. 515.

These cases contain suggestions limiting the right of patentee to recover a reasonable sum, which ought to be applied and followed in this case.

The appellees in undertaking to recover a reasonable royalty start with an erroneous premise that the appellees had a legal monopoly to lay Hassam pavement at Hood River at $1.70 per square yard, and that it was the appellees' job and appellees' private property and that anyone who interfered and took away the job from appellees was a wrongdoer and took away appellees' private property and should pay a reasonable royalty to appellees based upon $1.70 per square yard, notwithstanding that the price which was charged Hood River was $1.35 per square yard, and notwithstanding the testimony of city officials of Hood River, which was uncontradicted, that Hood River would not have laid any Hassam pavement at $1.70 per square yard nor at $1.50 per square yard, but instead would have laid concrete at $1.30 per square yard.

The evidence shows that the price of Hassam to City of Hood River had to be brought down to the figure which appellant Reliance Construction Company bid, or concrete would have been laid by the City of Hood River at $1.30 per square yard. This evidence has not been given its proper force and effect by the master and the lower court.

If that testimony is given its proper force and effect, and if proper force and effect is given to the inequitable conduct of the appellees in attempting to collect enormous damages or royalty instead of enjoining the laying of Hassam pavement in Hood River, then the recovery of appellees would be limited strictly to the profits made by appellant Reliance Construction Company, on the job.

The master, the lower court and the appellees further overlook that the market for Hassam pavement is to sell it to municipal corporations in tax proceedings to be paid by special assessments upon the property benefited, and that there must be competition in the bidding or the municipalities cannot buy the pavement.

The law governing municipal corporations laying and collecting for and paying for pavement, must be considered to ascertain if appellees were damaged, and to ascertain what would be a reasonable royalty in this case.

Appellees assert and the master and lower court act upon the assumption that appellees had a lawful monopoly to lay pavement in Hood River at $1.70 per square yard, or to recover damages or royalty upon that basis. This is erroneous and this is unjust.

If appellees had so claimed to Hood River when the negotiations were up with Hood River for Hood River to take proceedings to improve its streets

with Hassam pavement or concrete pavement, Hood River would have eliminated Hassam pavement and would have proceeded simply for concrete pavement.

The evidence of city officials of Hood River demonstrates this.

See Transcript, pages 314 to 330.

Can appellees take advantage of their inequitable conduct to recover large damage or an unreasonable royalty in a court of equity?

The master and lower court have permitted this inequitable conduct on the part of the appellees.

Appellees induced Hood River to advertise for Hassam as well as concrete, upon the assumption that it would have honest competition between Hassam pavement and concrete pavement, an unpatented pavement.

There would not have been any honest competition between Hassam and concrete if appellant Reliance Construction Company had not bid under the honest mistaken belief that both concrete and Hassam were unpatented concrete pavements.

The co-called license agreement filed at Hood River by the appellees is shown in this stipulation made in this case to be a fraud gotten up for the purpose to give appellees a monopoly and try and evade the charter of Hood River and the law of Oregon in laying street improvements at the expense of the property in an assessment district.

It is stipulated that the complainants have a monopoly under their patent for the Oregon District in which the contract was taken by the Reliance Construction Company, and that the 50 cents license fee was fixed by the Oregon Hassam Paving Company so that any one taking a job would pay to the Oregon Hassam Paving Company all the profits the Oregon Hassam Paving Company would make by taking the job itself and the effect of it was to secure the Oregon Hassam Paving Company under it a monopoly. That was the object of it, to protect their monopoly under their patent.

See Transcript, pages 255, 256.

This fraudulent scheme to give a monopoly is further demonstrated by the testimony of Mr. Crane, manager of appellees, as follows:

Q. Is it not a fact that this license agreement filed up here at Hood River at 50 cents a yard was so planned that it would not be possible for any one bidding on the Hassam pavement at Hood River to pay the license fee and lay the pavement and make any money at it?

A. No, I estimated that that would be the profit our company would make if we secured the contract and we based the license agreement on that estimate.

Q. Well, your company lays Hassam pavement as cheap as any company do not they?

A. I do not think it does in many instances.

Q. Has not your company got as good facilities for laying this pavement at an economical cost?

A. I think so.

Q. Then why would not your company lay Hassam pavement as economically as any company?

A. I think they are able to do so.

Q. Then the 50 cents license agreement was filed up at Hood River so that any other person could not pay the 50 cents license fee and pay the cost of laying the pavement without going higher than what you gentlemen bid on the work, is not that true?

A. No, they could pay 50 cents very readily.

Q. What profit would be left at $1.70 and pay you a fee of 50 cents?

A. Well, I do not know how cheaply they could construct their work; I presume they could do it for $1.20.

Q. Well how much profit do you figure if it cost $1.20 and they pay 50 cents license fee on a bid of $1.70?

A. Well surely 5 cents.

Q. Just explain that a little more fully?

A. No, it would be just even.

Q. Then, as a matter of fact, it would not be possible for anybody to bid on this job at Hood River less than your company put in a bid and pay the 50 cents and make any money?

A. They would be very apt to lose money at less

than we put in our bid and pay the 50 cents. [illegible] would not make any money.

See Transcript, pages 267, 268.

All these circumstances and considerations should be considered when what is a reasonable royalty is being considered, instead of an established royalty.

In *Dowagiac Mfg. Co. v. Minn. Plow Co.,* 235 U. S. 641 on 648, the court says:

"As the exclusive right conferred by the patent was property and the infringement was a tortious taking of a part of that property, the normal measure of damages was the value of what was taken. So, had the plaintiff pursued a course of granting licenses to others to deal in articles embodying the invention, the established royalty could have been proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages.

Philp v. Nich, 17 Wall. 460, 462.

Birdsall v. Coolidge, 93 U. S. 64, 70.

Clark v. Wooster, 119 U. S. 322, 326.

Tilghman v. Proctor, 125 U. S. 136, 143.

But, as the patent had been kept a close monopoly, there was no established royalty. In that situation it was permissible to show the value by proving what would have been a reasonable royalty, considering the *nature of the invention, its utility and advantages and the extent of the use involved.*

Not improbably such proof was more difficult to produce, but it was quite as admissible as that of an established royalty." (Italics ours.)

Hunt Bros. F. P. Co. v. Cassiday, 64 Fed. Rep. 585, was an *action at law* where could not secure profits of infringer. Court says on page 587:

"The plaintiff was clearly entitled to damages for the infringement. If there had been an established royalty the jury could have taken that sum as the measure of damages. In the absence of such royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum *as under all the circumstances, would have been a reasonable royalty for the defendant to have paid.*" (Italics ours.)

Cassidy v. Hunt, 75 Fed. 1012, was action at law.

Difference of recovery in action at law and in suits in equity for infringement of patents is discussed.

In action at law, plaintiff recovers what he lost, not what infringer made. Rule as to recoverable royalty has been worked out by the courts now for both law and equity.

But this does not exclude rule that in equity should recover infringer's profits, unless plaintiff can clearly prove a greater royalty or greater damages.

Therefore appellant respectfully contends that

the recovery in this case can not be upheld either as established royalty or reasonable royalty, but the recovery in this equity suit upon the evidence should be the profits made by appellant Reliance Construction Company by the infringement of appellees' patents.

If appellees want to protect their legal monopoly to lay Hassam pavement given them by their patents, and the adjudications obtained in this litigation, appellees can very easily do so by serving a preliminary injunction enjoining any one proposing to lay Hassam pavement without the permission of appellees.

That is the remedy which the law affords to the patentee who wants to keep to himself the imaginary benefit which the patentee has to lay stone, sand, cement and water into a concrete pavement patented as Hassam!

Henry v. A. B. Dick Co., 224 U. S. 1, s. c. 1913 D Ann. Cases on page 887.

Paper Bag Patent Case, 210 U. S. 405, s. c. 52 Law. Ed. 1122.

In this case appellees did not apply for a preliminary injunction and stop appellants from laying Hassam at City of Hood River.

Why?

Because that would be of no value to appellees, nor harm to appellants.

Always remember that this suit for injunction

was filed before appellants laid any Hassam pavement in Hood River.

Always remember that the patents of appellees had never been adjudicated by any court to be valid patents when appellants bid for this contract at Hood River.

See Transcript, page 274.

Always remember that the appellants were advised by counsel and believed that the Hassam patents were void, because Hassam was nothing but rock, sand, cement and water, mixed up as a concrete pavement and had been in use as an unpatented concrete pavement for years.

Always remember that the master made these findings and no one has excepted to these findings in any way:

"That subsequent to the letting of said contract, but prior to the time when any work was done thereon, the said defendant was duly notified by the plaintiffs herein that the pavement covered by the specifications of the City of Hood River accompanying the said contract was a patented pavement and that the patents for the same were owned and controlled by the plaintiffs to this suit; the said notice specified the patents by date and number and warned the defendant Reliance Construction Company against the infringement of these patents, threatening prosecution if the notice was disregarded. That the defendant Reliance Construction Company nevertheless proceeded with the

said work under a mistaken impression as to the law and deliberately infringed plaintiffs' patents.

"That the defendant Reliance Construction Company has made a full disclosure of all of the facts in its possession relevant to the profits made by it in the said work and has submitted its books and papers to a searching examination made thereof on behalf of plaintiffs."

See Transcript, pages 108-109.

Always remember that appellant Reliance Construction Company found itself tied up by contract with City of Hood River to lay Hassam under the belief that it was an unpatented concrete pavement.

Always remember that City of Hood River held appellant Reliance Construction Company to its contract.

Always remember that appellees would not apply for a preliminary injunction in this case and relieve appellant Reliance Construction Company of the obligation to carry out the contract with City of Hood River.

Always remember that under these peculiar circumstances appellant Reliance Construction Company acted upon its judgment that the patents of appellees were invalid and appellant Reliance Construction Company performed its contract with the City of Hood River.

Always remember that appellant Reliance Con-

struction Company made but the one infringement and under these circumstances.

Always remember that appellants are solvent and have given good bonds to pay whatever this court shall decree that appellants ought to pay to appellees in this case.

Therefore appellants are doing equity on their part, and are entitled to have their case carefully considered by the court of equity, and are entitled to have a court of equity apply the equitable maxims to appellees and see that appellees are required to come into a court of equity with clean hands and do equity on the part of appellees and receive only what equity awards for the infringement of these patents under the circumstances of this case, which is the profits which appellant Reliance Construction Company made on the infringement.

Always remember that the appellees laid back and speculated on what they could make out of this litigation.

Always remember that appellees so planned and conducted this litigation that appellees could only lose the costs if the patents were declared invalid.

Always remember that appellees filed claims upon this accounting as follows:

On Statement No. 1 for.....$ 8,329.95
On Statement No. 2..... 8,190.51
On Statement No. 3..... 12,132.75

Always remember that appellees were claiming

that they could get any damages awarded them trebled.

See in what inequitable speculative litigation appellees were involving appellant Reliance Construction Company.

Always remember that appellees tried their best to get a court of equity to award them such inequitable damages and to treble the same.

Appellant Reliance Construction Company respectfully urges upon a court of equity upon this record that there has been no proof submitted which would justify the recovery of any royalty or anything more than appellant Reliance Construction Company's profits on the infringement.

Did appellees prove damages greater than the profits of appellant Reliance Construction Company so lower court was right in awarding $4,527.73 as damages?

The burden of proof of proving damages suffered by appellees by the infringement is upon the appellees, and appellees can only recover nominal damages for an infringement of their patent in absence of proof of actual damage.

Cornley v. Mackwald, 131 U. S. 159; s. c. 33 Law. Ed. 117.

Rude v. Westcott 130 U. S. 152, 165.

McSherry Mfg. Co. v. Dowagiac Mfg. Co., 160 Fed. Rep. 948, 965.

U. S. Furniture Co. v. Lanhoff, 216 Fed. Rep. 610.

Dowagiac Mfg. Co. v. Minn. Plow Co., 235 U. S. 641 on 648.

W. E. & M. Co. v. Wagner E. & M. Co., 41 L. R. A. (N. S.) 653 and note.

Dobson v. Hartford Carpet Co., 114 U. S. 439 on 444; s. c. 29 Law Ed. 178, 179.

There was no competent testimony that appellees were damaged at all by the infringement.

The master found that "the evidence fails to show that in the absence of an infringement by the defendant Reliance Construction Company, plaintiffs or their licensee would have secured the work."

See Transcript, page 110.

No one excepted to this finding.

Appellees moved to confirm the report of the master.

Thus it ought to be established on this appeal that the appellees were not damaged by loss of the contract or in any other way.

There was no evidence to support the finding of fact by the master as follows:

"That the damages of plaintiffs for the infringement referred to in finding one were and are the sum of $4,527.73."

It is found in finding one, and is established by the evidence, that the defendant Reliance Construction Company took this contract for the sum

of $1.35 per yard, and that it cost the Reliance Construction Company, and would have cost any one else, more than $1.20 per yard to lay this Hassam pavement in Hood River.

The undisputed testimony is that Hood River would not have laid Hassam pavement unless the price had been a very great deal lower than the lowest price for which the Hassam Paving Company or any of its licensees would lay Hassam pavement, and that the City of Hood River would have awarded its work for concrete pavement to defendant Reliance Construction Company at $1.30 per yard if the Reliance Construction Company had not bid $1.35 per yard for Hassam pavement under the mistaken belief that Hassam pavement was an unpatented pavement.

See testimony of witnesses Blanchard, Robertson, Stranahan, Tafft, Staten.

Transcript, pages 314 to 329.

Therefore it follows that there is absolutely no evidence, absolutely no legal reason stated or found by the master, nor stated by the court why a decree should be rendered that the damages of plaintiffs for the infringement referred to in finding one were and are the sum of $4,527.73, or any other or greater sum than the profits which were made by the defendant Reliance Construction Company, or which could have been made by any competent person laying this Hassam pavement in Hood River, which the undisputed evidence shows

do not exceed, and could not exceed the sum of $2,062.40, the profits made by the Reliance Construction Company and which profits the Reliance Construction Company concedes the decree should be against it in that amount.

The master has found from the testimony, and his finding is not questioned by the appellees, that neither the appellees nor their licensee could have obtained the contract in Hood River. So the appellees have not lost the profits it would have made upon the Hood River contract, nor has it lost its attempted license charge of 50c per square yard less 4c that it would have cost appellees to comply with its license agreement.

That finding, unexcepted to, ought to have put the question out of the case.

But the master found "that the damages of plaintiffs from the infringement referred to in Finding I were and are the sum of $4,527.73."

The report of the master seems to the appellants to be contradictory with itself.

The lower court upon motion to confirm report of master, enters a decree for $4,527.73 damages in favor of appellees and against appellants.

The decision of the court appears to appellants to be contradictory with itself.

In this state of the record it seems to appellants that they ought in their argument to show that appellees suffered no damages.

When appellees are trying to prove damages for not getting the contract at Hood River, appellees must prove that they would have gotten the contract at Hood River if it had not been for the acts of appellant Reliance Construction Company.

This is the first difficulty for appellees to overcome in order to sustain their recovery of damages.

Appellees undertook to put in the opinion evidence of Mr. Crane that these officers of Hood River wanted appellees to lay Hassam pavement in Hood River and the further opinion of Mr. Crane that these officers would have awarded the contract to appellees if appellant had not put in its bid of $1.35 per square yard and therefore it was the opinion of Mr. Crane that appellees were damaged by the acts of appellant and appellant had deprived appellees of the Hood River contract at $1.70 per square yard to its damage.

It was further the opinion of Mr. Crane that Hood River had asked for bids on concrete merely to keep appellees down in its price in bidding for Hassam which Hassam pavement Hood River was going to lay.

Thus appellees introduced merely opinion evidence of Mr. Crane of what he contended that the officers of Hood River would have done under certain circumstances which did not exist.

Appellees must introduce such evidence if appellees are to contend for damages.

Appellees must prove that they were damaged by acts of appellants.

Appellees cannot be damaged unless they can prove that the officers of Hood River would have done certain things if appellant had not put in the bid of $1.35 per yard for Hassam.

Thus if this opinion evidence of Mr. Crane is incompetent and inadmissible then appellees have not any evidence to recover damages upon, and the only recovery is appellant's profits of $2,062.40.

Appellant does not believe that the opinion evidence of Mr. Crane as to what the officers of Hood River would have done under circumstances which did not arise, is competent evidence or evidence upon which a court of chancery should award damages.

Appellant believes that if evidence of what the officers of Hood River would have done under certain circumstances which did not arise is admissible, then the officers themselves are the only persons who can give that evidence.

As this is a proceeding in equity, and as the testimony of the officers of Hood River as to what they would have done, was different from the opinion of Mr. Crane as to what they would have done, appellants called the officers of Hood River to testify as the easiest and most satisfactory solution of the problem.

Under the view of the competency of evidence

stated by the Master in Chancery, the appellees cannot carry its burden of proof and offer any competent evidence that appellees were damaged in any way, but appellees can only recover the profits which appellant made by infringing the patent.

Appellant offered the evidence of the officers of Hood River merely as an answer to the opinion evidence of Mr. Crane.

Appellant does not claim that the evidence of the officers of municipalities can be received to contradict or vary a municipal record or prove acts of a municipality which can only be proven by the record.

That question as to evidence is not involved in this case.

The first insurmountable defense to appellees' claim for damages is that the burden of proof is upon appellees to prove that it would have gotten the contract at Hood River upon its bid of $1.70 per yard if appellant had not bid $1.35.

The mere statement of the proposition in the face of the evidence given by the officers of Hood River in this case shows how absurd is appellees' contention and that the findings of master and decree of court are not supported by any evidence, but are flatly contrary to the evidence.

If we assume for the sake of the argument, that appellees would have gotten the contract at Hood River at $1.70 per square yard if appellant Reli-

ance Construction Company had not put in its bid of $1.35 per square yard, then appellees are up against this second insurmountable obstacle to proving damages.

We cannot make this assumption without ignoring the evidence.

We cannot make this assumption without ignoring the findings of the master which are not excepted to.

When appellees are proving damages because bid of appellant Reliance Construction Company deprived appellees of contract with City of Hood River to lay patented Hassam pavement at $1.70 per square yard, under its proceedings, appellees must prove that if they got a contract to lay patented Hassam pavement at Hood River on their scheme, at $1.70 per square yard, that they would have a legal and collectible contract.

No one can recover damages in a court of justice for being deprived of an illegal and worthless contract.

If appellees had gotten the contract to lay patented Hassam pavement at Hood River on its scheme the contract would have been illegal and worthless, and a liability instead of an asset; a damage to it, instead of a benefit.

When appellees try to obtain damages, then appellees must prove that they are entitled to dam-

ages and that they have been damaged and how much they have been damaged by the appellants.

McSherry Mfg. Co. v. Dowagiac Mfg. Co., 160 Fed. 948, 965.

Rude v. Westcott, 130 U. S. 152, 165.

Corneby v. Mackwald, 131 U. S. 159.

Thus it is incumbent upon appellees in trying to get damages, to prove that the proceeding for the improvement at Hood River would result in a lawful collectible assessment if the contract had been awarded to appellees or to any one who would proceed to make the improvement in the manner appellees contend it should have been made, i. e., as a patented pavement to be paid for by special assessment under this license agreement filed with Hood River.

If the improvement and assessment would have been illegal and uncollectible at Hood River if the contract had been let to appellees as a patented pavement, then appellees would not have had a legal collectible claim against the taxpayers in the Hood River assessment districts, and it would follow that appellees could not have legally collected upon the contract and assessments at Hood River if appellees had obtained the contract they were after.

In claiming damages, appellees are suing to recover upon the same legal principles as would govern the collection of the assessments at Hood River

and appellees must prove legal collectible assessments at Hood River, would have resulted if the procedure outlined by appellees had been followed at Hood River in order for appellees to recover damages in this case. If the proceedings to collect the assessments would have been illegal and uncollectible if appellees had been awarded the contract, there could be no basis to claim damages in this case.

If the proceedings to collect the assessments would have been illegal and uncollectible if appellees had been awarded the contract, the appellees did not sustain any damages but sustained a benefit, by not receiving the contract at Hood River.

The burden of proof to prove damages is upon the appellees.

Rude v. Westcott, 130 U. S. 152, 165.

McSherry Mfg. Co. v. Dowagiac Mfg. Co., 160 Fed. 948, 965.

U. S. Furniture Co. v. Lanhoff, 216 Fed. 610.

It is established in this case that Hood River undertook to lay Hassam pavement as a *patented* article, and levy assessments to pay therefor upon the property within assessment districts.

It is established in this case that appellant Reliance Construction Company, when it bid for the contract to lay Hassam pavement and laid Hassam pavement at Hood River in competition with Oregon Hassam Paving Company, appellant Reliance

Construction Company did so upon the theory that Hassam pavement was a form of concrete, an *unpatented* pavement, and made a bad mistake.

Appellees assert in this case that they have and had a monopoly to lay patented Hassam pavement at Hood River.

See stipulation entered into between counsel before the Master in Chancery, as follows:

"It is stipulated that the complainants have a monopoly under their patent for the Oregon District in which the contract was taken by the Reliance Construction Company, and that the 50 cents license fee was fixed by the Oregon Hassam Paving Company so that any one taking a job would pay to the Oregon Hassam Paving Company all the profits the Oregon Hassam Paving Company would make by taking the job itself and the effect of it was to secure the Oregon Hassam Paving Company under it a monopoly. That was the object of it, to protect their monopoly under their patent."

Judge Carey in making his argument contended:

"Oregon Hassam Paving Company has a lawful monopoly and is not compelled to sublet that right."

"Oregon Hassam Paving Company had the right to lay Hassam at Hood River."

The license agreement filed in Hood River and introduced in evidence is a mere fraudulent scheme to try and get around the charter of Hood River and

law of Oregon and the assessments would have been illegal if the appellees had been awarded the contract on its bid for a patented pavement.

Mr. Crane testified fully about this illegal license scheme to hide the monopoly of plaintiff.

On pages 267-268 of testimony Mr. Crane testifies:

"Q. Is it not a fact that this license agreement filed up here at Hood River at 50 cents a yard was so planned that it would not be possible for any one bidding on the Hassam pavement at Hood River to pay the license fee and lay the pavement and make any money at it?

A. No, I estimated that would be the profit our company would make if we secured the contract and we based the license agreement on that estimate.

Q. Well your company lays Hassam pavement as cheap as any company do not they?

A. I do not think it does in many instances.

Q. Has not your company got as good facilities for laying this pavement at an economical cost?

A. I think so.

Q. Then why would not your company lay Hassam pavement as economically as any company?

A. I think they are able to do so.

Q. Then the 50 cents license agreement was filed up at Hood River so that any other person could not pay the 50 cents license fee and pay the cost of laying the pavement without going higher than

what you gentlemen bid on the work, is not that true?

A. No, they could pay 50 cents very readily.

Q. What profit would be left at $1.70 and pay you a fee of 50 cents?

A. Well, I do not know how cheaply they could construct their work; I presume they could do it for $1.20.

Q. Well how much profit do you figure if it cost $1.20 and they pay 50 cents license fee on a bid of $1.70?

A. Well surely 5 cents.

Q. Just explain that a little more fully?

A. No, it would be just even.

Q. Then, as a matter of fact, it would not be possible for anybody to bid on this job at Hood River less than your company put in a bid and pay the 50 cents and make any money?

A. They would be very apt to lose money at less than we put in our bid and pay the 50 cents. They would not make any money."

Under the facts shown in this case, if appellees had been awarded the contract at Hood River, the contract and the assessments would have been illegal and void and non-collectible, and the fraudulent offer to furnish license to any one would not have saved the contract and assessments from being illegal.

All contracts in which the public are interested

which tend to prevent competition required by statute are void.

Terwilliger Land Co. v. Portland, 62 Ore. 101.

John v. Pendleton, 66 Ore. 182, 190, 193, 194; s. c. 46 L. R. A., N. S., 991, and note.

Sherett v. Portland, 75 Ore. 449, 461, 463, 466, holds must be reasonable royalty.

Temple v. Portland, 77 Ore. 559, 563.

Johnson v. Atlantic City, 82 N. J. L. 204, s. c. 81 At. Rep. 1105.

Monaghan v. Indianapolis, (Ind. App.), s. c. 75 N. E. 33.

Allen v. Milwaukie, 128 Wis. 678, s. c. 5 L. R. A., N. S., 680.

Seegel v. Chicago, 223 Ill. 428, s. c. 7 Ann. Cases 104.

See Charter of Hood River, pages 393-404 of Transcript.

The patent gives appellees a monopoly, but not unlimited discretion as to what appellees would do with its monopoly under its patent.

The monopoly granted by the patent is subject to the police power of the states.

Henry v. A. B. Dick Co., 224 U. S. 1, s. c. Ann. Cases 1913 D on page 887.

No one is compelled to buy a patented pavement of appellants.

Municipalities under charter like Hood River

cannot buy patented pavements of appellees when there is no reasonable provision made for competition.

Appellees had a monopoly which it can protect by right conduct on its part.

There is a limit to what appellees can do under its patent monopoly, in selling its patented pavement to cities like Hood River.

Thus appellees when they attempt to assert this claim for damages must fail because the foundation of their claim is defeated because of the illegal methods they attempted to pursue to get contract with City of Hood River to lay patented improvement to be paid for by assessments upon property benefited without competition.

This claim for damages must be looked at in the light of the law governing the City of Hood River in laying patented pavements.

This claim for damages must be analyzed.

There was no damage to appellees, but a benefit to appellees to have Hassam pavement laid by appellant.

It is an advertisement of the pavement and a benefit.

The patent is of no value unless the Hassam pavement is laid.

Appellees must induce the laying of Hassam pavement before its patent has any possible value.

Appellees must induce the laying of Hassam

pavement by legal proceedings and collectible contracts before its rights are of any possible value.

Appellees must prove their damages under the established rules of law before appellees are entitled to recover damages.

The lower court reaches this unjust conclusion as to measure of damages by correctly stating:

"Now the exclusive right conferred by a patent is property. An infringement is the tortious taking of that property. The measure of damages therefor is ordinarily the value of the thing taken."

Then the court erroneously fails to define what is taken by an infringement of this patent and the value thereof.

The court erroneously fails to apply any measure of damages heretofore laid down by the decisions.

The court seems to decide that the average profits of complainants covering a series of years has been forty-five cents a yard, and that it offered the right to lay the pavement for what would net it forty-five cents a yard and that five-ninths of this forty-five cents a square yard or twenty-five cents a square yard would be the proper measure of damages as the value of the thing taken when appellees' patents were infringed by appellants at Hood River.

See Transcript, pages 138-139.

The lower court does not find that the appellees

lost five-ninths of their average profits by appellant Reliance Construction Company laying this Hassam pavement at Hood River.

No such finding could be made upon the evidence in this case.

The solicitor of appellant Reliance Construction Company has searched the books in vain to find any authority for this remarkable decision as to measure of damages for infringing this patent. Appellant respectfully suggests that said decision as to measure of damages stands alone.

Appellant respectfully suggests that said decision on measure of damages is in violation of the law, unjust to appellant and should be reversed.

Appellant respectfully suggests that the large number of cases cited in note to *Rose v. Hirsh,* 51 L. R. A. 801, be examined to demonstrate how the lower court does not apply the settled law of the land to the measure of damages in this case.

Appellant Reliance Construction Company respectfully refers to and asks the court to consider in connection with this claim for damages the arguments made in this brief in regard to the inequitable conduct of appellees in this entire matter, as potent reasons to show that appellees were not damaged and that appellees should be limited to recovering appellants' profits under the rules of equity.

Appellants ask attention to what would be the

unreasonable effect upon business and how business would be injuriously affected if the decision of the lower court is upheld, and what a club for extortion would be put in the hands of patentees, even those whose patents have never been adjudicated to be valid patents, by upholding the decision of lower courts.

Patents are granted on *ex parte* application of the party wishing to get a patent, and who can hire a patent attorney to assist him get a patent.

There are large numbers of attorneys in the business of getting a patent on almost anything for a comparatively small charge.

I understand many patent attorneys will guarantee to get a patent on almost anything or charge no fee.

There is no trial or particular effort by the United States Government to guard against granting patents which are not valid, or against granting patents for things that are not justly patentable.

It is very common for patents to be declared by the courts not to be valid.

A patent is only prima facie evidence of validity of patent.

The statutes expressly provide for contesting patents in defense of infringement suits.

Under the decision of the lower court any one who has been granted a patent can notify other people that he has a patent and that he claims it

is being violated, and that patentee demands certain terms for what he claims is the use of his patent, and that if said patentee's claims are not paid or the other people do not discontinue what they think they have a right to do and patentee says is an infringement of his patent, the patentee will file suit to establish the validity of his patent and for an injunction and an accounting, and do unto the defendants in those future suits what appellees have done to appellants in this suit.

That will be a warning of a serious nature.

The patentee will apply for no preliminary injunction or become liable for any great expense.

The patentee will just speculate on a law suit, and with little to lose and much to gain, just as appellees did in this suit.

This suit will be cited to show what a patentee of an unadjudicated patent can do to an infringer whose patent is adjudged to be good after a contest.

Apply this decision of lower court to patents on pavements. There are a number of patented pavements, the validity of the patents have not been adjudicated.

Under this decision there will be more patents obtained on pavements.

There is widespread belief among contractors and engineers and highway boards that a number of these patented pavements, which patents have not been adjudicated, are invalid, because such

pavements have been laid for years and are not subject to be patented.

In this state, cities, counties and the state are spending and preparing to spend large sums of money for hard surface pavements.

Some one claims to have a patent on nearly every hard surface pavement that can be laid and nearly all pavement that is to be laid as unpatented hard surface pavement, some one claims it is an infringement on his unadjudicated patented pavement and the patentee either wants the lawful monopoly of laying that hard surface pavement at an enormous price or patentee wants an enormous royalty.

Under this decision, every one who believes that an unadjudicated patent for a hard surface pavement is invalid or is not being infringed by a hard surface pavement, is told that he backs his judgment and litigates the claims of the patentee at an enormous risk, while the patentee runs no appreciable risk of loss at all.

This decision of lower court unreversed will be a great expense and hinderance to the improving of our streets and roads.

Under this decision, every one who contracts for the pavement, or who signs a bond for the contractor, or does anything for the contractor in laying a pavement, if the patent should be adjudged to be valid and to be infringed are liable jointly

and severally as joint tort feasors to the patentee for what the patentee says he lost because he did not get an enormous royalty or an enormous profit by laying the pavement at an enormous price!

This decision establishing the validity of patent for Hassam patent, will not result in promoting the laying of Hassam patented pavement and the paying of royalty to the appellees.

It simply will require this appellant Reliance Construction Company to pay whatever sum this court of appeals adjudges that it should pay the appellees.

It will simply notify each city, county and state in the ninth circuit, that when they want to lay concrete pavement, advertise for and lay concrete pavement and don't call it Hassam.

It simply gives promoters a great big club to use for their own benefit in hampering the good roads movement, at the expense of the taxpayers.

Such a decision ought to be reversed.

Argument in Support of Seventh and Eighth Assignments of Error.

Appellant Reliance Construction Company refers to and adopts the argument on these subjects in its petition for rehearing printed in the Transcript, pages 132, 133, 134, 135.

Appellant Reliance Construction Company also respectfully refers the court to the separate briefs of City of Hood River and National Surety Com-

pany for authorities and argument in further support of these assignments of error.

We most earnestly contend, upon the above authorities, argument and facts for the modification of the decree by limiting the recovery to the appellant Reliance Construction Company and to the profits made by the appellant Reliance Construction Company of $2,062.40, together with costs taxed in lower court of $282.30, and that appellant Reliance Construction Company recover costs of the appeal.

Respectfully submitted,

Ralph R. Duniway,

Of Counsel for Appellant Reliance Construction Company.